Assisted Living Operating Proforma and Financial Feasibility Analysis Model

User Guide

A Joint Project Between NCB Development Corporation,
Concepts in Community Living and
Vista Senior Living

Funding Provided by NCB Development Corporation

NCB Development Corporation
www.ncbdc.org

December 2001

TABLE OF CONTENTS

INTRODUCTION AND PURPOSE OF THE OPERATING PROFORMA AND FINANCIAL FEASIBILITY ANALYSIS MODEL

This generic operating proforma and financial feasibility analysis model has been developed as a tool to be used in determining the preliminary financial viability of affordable assisted living projects. This guide provides step-by-step instructions on how to use the model.

It is critical to understand that this generic model should be used only to make a "first cut" regarding the feasibility of a project. Full market and financial feasibility studies should be conducted to determine the specific viability of the project in its particular location and within its state's regulatory environment. Individual state policies (including regulatory requirements and reimbursement structures), local market conditions, and project-specific costs can vary greatly from the assumptions made in this generic model, resulting in significant differences between the performance that this model predicts and the results for a specific project.

This model assumes that the income from services, room (rent) and board (meals) may be combined by the facility and used to pay for real estate and operational costs as needed. Some states require separate cost accounting for services provided to Medicaid tenants, paying only for the demonstrated costs of services rather than a fixed fee payment for a defined level of services. Where this is the case and Medicaid clients will be served, the operational and real estate development analysis will need to be separated so that the income streams do not mix. This will require a traditional, stand alone real estate feasibility analysis for the building. This model will still be a useful tool to predict preliminary operational costs in these projects, up to the "Total Operating Expense" line of the "Profit and Loss Projections" sheet of the analysis. The net operating income and debt service calculations in the model will not apply. The debt service and net income calculations will also not apply to any project where lenders or investors require that the real estate is able to support itself on the rent payments alone.

The model is designed to estimate costs for a nursing home alternative model of assisted living (i.e., most residents have a level of frailty that could make them eligible for placement in a skilled nursing facility). The services provided in such a model include three meals per day, housekeeping, laundry, activities and socialization, transportation, and assistance with medications, personal care and orientation. Depending on the regulations of the State in which the facility is located, assistance with routine nursing tasks may also be provided (e.g., blood sugar monitoring, catheter care, ostomy care, dressing changes).

The model also assumes that a number of residents will have difficulty with memory loss and orientation, some of which may have a primary or secondary diagnosis of dementia or Alzheimer's disease. It is assumed that these residents are integrated with the other residents; that is, there is no special unit for residents who have dementia. It is not appropriate to use this model for projects that are dementia-specific or have sections of the building dedicated to dementia care.

Assumptions regarding a project's physical plant have also been built into the model. The model assumes that all units will be of a studio or one-bedroom design with private bathrooms. Single occupancy is assumed for all units, except when double occupancy occurs with couples. In addition, it is assumed that a project's physical plant will include a common dining room and sufficient areas for resident activities and socialization (e.g., a living room, TV room, activity room, etc.).

The model has been designed to automatically calculate many factors, based on certain operating assumptions and the project-specific information that you enter into the model. The operating assumptions are based on Coming Home's understanding of best practice staffing and programming approaches for affordable assisted living. The model assumes tightly controlled expenses and efficient staffing (including "universal workers). It should be understood that reasonable people may disagree with some of the assumptions made in the model. However, the benefit of this model is that it can help determine preliminary viability for a project targeted at the hardest to serve. If this model or a full feasibility study finds that funds are available for additional staffing and amenities, Coming Home fully supports their addition.

It should also be noted that the assumptions and estimates used in the model are based on "averages" from a variety of facilities and thus may not be appropriate for some specific projects. Therefore, the assumptions provided in the model should be reviewed and modified as appropriate to obtain the most accurate results possible.

The model is designed to project the viability of projects ranging from 25 to 100 units, with the number of total units estimated in multiples of five (e.g., 25, 30, 35, 40, 45, etc., up to 100). The assumptions built into the model are not appropriate for projects that do not meet this criteria.

USING THE MODEL - INSTRUCTIONS

I. PROJECT ASSUMPTIONS AND RATES ("Project" Sheet)

A. Total Number of Units. The unit assumptions associated with a proposed project must be determined before financial projections may be calculated. These assumptions include the total number of units, unit and payor mix, projected rates, ramp-up period and vacancy factor. Any of these assumptions may be changed while working with the model to determine the affect the change has on the project's viability. The cells that require assumption inputs are the cells that are shaded gray. All other cells will calculate automatically based on the assumption inputs.

On the "Project" sheet of the financial model:

Note the projected number of units that will be included in the proposed project in cell **C7** for "Total # of Units". Remember that this number must be a multiple of five between 25 and 100.

In cell **B8**, place the percentage of total units that will be allocated to Medicaid-eligible residents. The percentage of private-pay units will then be calculated automatically. The number of Medicaid and private-pay units will also be automatically calculated.

For a project targeted at low-income residents, it may be appropriate to first see if the project could be financially feasible at 100 percent Medicaid. If after following all instructions for completing the financial feasibility model it becomes apparent that the project is not viable with an all-Medicaid clientele, experiment with other payor mixes (e.g., with 80 or 60 percent Medicaid).

If the project will be 100% Medicaid, enter 0 into cell **B10** for the percentage of private-pay studio units. If the project will include private-pay units, specify the percentage of private-pay units that will be of a studio design in cell **B10**. The corresponding percentage of private-pay one-bedroom units will then be automatically calculated in cell **B11**, along with the number of studio and one-bedroom units (cells **C10** and **C11**). (Please note: the Medicaid units may either be studios or one-bedroom units, depending on the number of square feet the project can afford to construct.)

The percent and number of second occupants will be automatically calculated in cells **B12** and **C12**, based on the total number of units in the project. Based on the unit mix that was specified, the percent and number of units that will be projected at Level 1, 2 or 3 will also be automatically calculated for each unit type (in cells **D20**, **D21** and **D22** for private-pay studio units and in cells **D26**, **D27** and **D28** for private-pay one-bedroom units). The model assumes a typical distribution of levels that cannot be

modified. It is also assumed that a facility's case mix will be managed so as to maintain a consistent level of care and staffing patterns.

B. Vacancy Factor. The most appropriate vacancy factor for the proposed project must be determined. Typically a five percent vacancy factor is used, although some lenders may require a higher vacancy rate (seven percent is not unusual). Even if the lender for a proposed project does not require a higher rate, if the project will be located in a highly competitive market where comparable facilities are less than 95 percent occupied, it may be prudent to use a vacancy rate of seven, eight or even ten percent.

The vacancy factor that will be used in the model should be entered in cell **B15**.

C. Rates. Appropriate rate assumptions for a project's units and services are among the most difficult assumptions to determine for this and other financial models. Thus, this section will require a fair amount of your time and effort. You will also need to use your judgment to determine the final inputs. However, if you follow the instructions below, you will be able to enter reasonable preliminary estimates that will allow you to complete this model and determine if the project meets initial viability thresholds.

1. Private-Pay Rates. If private-pay units will be included in the project, appropriate payment rates for these units must be determined. This determination may best be made by evaluating rates for comparable facilities in the proposed project's primary market area.

a. ***Determining a Project's Primary Market Area***. The primary market area for a facility is that geographical area from which the majority of residents relocate. It is typically comprised of a fairly homogenous geographic region from which potential residents are willing to travel to receive services. It is important to note that the boundaries of a primary market area may change over time, as forces both within and outside of the market area act to redefine the boundary lines.

To properly identify a primary market area, a variety of factors must be analyzed. Geographic boundaries such as rivers, mountains, and creeks may serve as natural barriers, limiting the accessibility of an area. Transportation corridors such as freeways, railroad tracks and other major arteries may also make it difficult to travel from one area to another.

In addition, psychological barriers may exist. That is, there may be defined lines in a community that prospective residents would not cross to obtain senior living services. Often one part of a city or town is perceived as substantially different from another for reasons not always evident to individuals unfamiliar with the community. County lines, state lines and city limits may also form psychological barriers.

The distance that people in a local area are willing to travel to access needed services is also an important factor to consider when determining a primary market area. For instance, in rural communities people often travel relatively long distances to obtain services (e.g., 10 to 15 miles) and in more remote locations they may travel up to 20 or 30 miles to access services. On the other hand, in urban markets individuals may not be willing to travel more than a few miles to obtain needed services.

b. ***Identifying Comparable Facilities***. After determining an appropriate market area for the proposed project, those facilities located within this area that could be considered competition to the proposed facility must be identified. Competitive facilities may be defined as those facilities offering a physical plant and services that are comparable to the proposed project. That is, to be considered direct competition a facility would offer similar accommodations to those planned for the project (e.g., private living space, private bathrooms and common areas available for use by residents). It should be noted that this criteria will typically exclude those facilities with fewer than 15 residents. In addition, for facilities to be considered as direct competition, a full spectrum of personal care services must be available.

c. ***Determining Current Rates for Comparable Facilities***. To determine the private-pay rates for comparable facilities, these facilities should be contacted and appropriate information obtained. It is important to determine the rates for all levels of care offered and for all available unit sizes. Information should also be obtained regarding the services included in the various care levels.

d. ***Estimating Appropriate Private-Pay Rates***. Once the rates for comparable facilities have been obtained, appropriate rates for the proposed project may be determined. A decision must be made about how to best position the proposed project within the marketplace. Some affordable project sponsors want facilities to serve the lower end of the private-pay market by providing the most affordable rates possible. Other affordable facilities position the majority of their units in the middle or perhaps even upper end of the private-pay market (if their market area will support the rates). They do this to create an internal subsidy to help offset losses associated with Medicaid units when the Medicaid rate is insufficient to cover costs.

Once appropriate rates have been determined for the private-pay units, enter these rates in the appropriate cells in the "Rates" column under either "Private Pay Studio" (cells **B20**, **B21**, and **B22**) or "Private-Pay One-Bedroom" (cells **B25**, **B26**, and **B27**). If no private-pay studio and/or one-bedroom units will be included in the project, leave the "Rates" cells for these unit types blank.

A weighted-average rate for each type of private-pay unit will be automatically calculated, in cell **E20** for Private-Pay Studio units and in cell **E26** for Private-Pay One-Bedroom units.

2. **Medicaid Rates**. Many states now provide Medicaid reimbursement for residents in assisted living facilities if the resident meets financial and service needs eligibility guidelines and funding is available. Where Medicaid funds are available, they pay for services and the resident pays for room and board charges from his/her income. The methods by which both room and board payments and service payments are calculated vary from state to state.

   a. ***Room and Board Payments***. It is important to understand how the state determines the amount that may be charged for room and board. Some states limit room and board charges for all Medicaid beneficiaries to a specified amount, often the state's Supplemental Security Income (SSI) and any SSI supplemental payment paid by the state. Other states set rates for services and allow the room and board charge to be negotiated by the resident and the facility. A third approach used by states is to limit the room and board charge for SSI beneficiaries and allow higher amounts to be charged to Medicaid beneficiaries who do not receive SSI. In all cases, states allocate a specific amount that may be retained by residents for a personal needs allowance.

   b. ***Medicaid Service Payments.*** Medicaid payment structures for services also vary significantly from state to state. To determine Medicaid rates for the state in which the project will be located, contact the state agency overseeing the Medicaid program for assisted living. Contact information for the appropriate agency may be found on NCB Development Corporation's web site, at www.ncbdc.org, by clicking on "Affordable Assisted Living". The various approaches utilized are as follows (payment variations by location may exist in some states under the following payment structures):

      Flat Rates. Many states use a flat rate for all assisted living settings, regardless of the facility's physical plant or the needs of the resident.

      Flat Rates Varied by the Physical Amenities of the Setting. In some states, a flat rate is used but the amount of the rate depends on the physical plant of the facility (e.g., single occupancy apartments, double occupancy apartments, or a room). With this payment structure, the payment still remains constant regardless of the needs of the resident.

      Tiered Rates. Some states utilize a tiered rate structure with a number of different levels of care and corresponding payment rates. With this structure, there are usually between three and five different payment levels based on the frailty or functional capacity of the resident.

Case Mix Systems. A case mix payment system is similar to a tiered rate structure, except there are usually more than five possible payment levels. This type of payment system allows for more refined payment differences related to resident needs, and is often based on a state's existing nursing home acuity-based payment structure.

Care Plan or Fee-for-Service. When a care plan or fee-for-service payment structure is used, payments are determined by the actual tasks performed for each resident.

c. ***Miscellaneous Payments.*** In some states, other funds may be available to supplement the payments allocated for room and board and services. For example, some states allow providers to collect funds available through food stamps if the resident qualifies for this program. Another state provides additional funding to pay for incontinence supplies.

d. ***Entering Medicaid Payment Rates into the Model***. Once a determination has been made as to the structure used by a state for room and board and service payment rates, appropriate amounts for Medicaid payment rates may be entered into the financial model. First, enter the amount that may be allocated for room and board into cell **B32** on the "Project" sheet of the model.

The next step is to enter the appropriate service rates into the model. If the state pays a flat service rate regardless of the level of care, enter this amount into the cells for all three Medicaid levels of care (cells **B35**, **B36** and **B37**).

If the Medicaid program has three levels of care for assisted living, enter these rates in the "Rates" column under Medicaid Level 1 (cell **B35**), Level 2 (cell **B36**) and Level 3 (cell **B37**).

If the state has more than three levels of care, determine if Medicaid pays for all of the levels in assisted living settings. Some programs only pay for certain levels of care, such as levels three through five in a five-level payment structure. It is important to note that in some states Medicaid will pay for all of the available levels of care but the payment rates for the lower levels are not sufficient to be cost-effective for assisted living providers.

If the Medicaid program has more than three care levels that are appropriate for assisted living, enter the payment rates for the three levels in the middle of the payment structure in the cells for Medicaid Level 1, 2 and 3 (cells **B35**, **B36** and **B37**). For example, if the state has five levels of care for assisted living and all five have appropriate payment rates, note the rates for levels two, three and four in these cells. On the other hand, if a state has five payment levels but only levels three through five have appropriate payment rates for assisted living, note the rates for levels three, four and five in the cells labeled Medicaid Level 1, 2 and 3.

If the state uses a care plan or fee-for-service approach to payment, it will be important to speak with a Medicaid program representative and possibly other assisted living providers in the state to determine appropriate amounts to project for the Medicaid payment rates. In this case, an "average" payment rate for services might be determined. This rate would then be entered into cells **B35**, **B36** and **B37**.

After the appropriate service rates have been entered into the model, enter any funds that may be available from other sources such as the state's food stamp program into call **B39** on the "Project" sheet.

D. Second Occupant. Estimated rates for second occupants must be determined and entered into the model in cells **B41**, **B42** and **B43** on the "Project" sheet of the model. These rates may be based on either private-pay or Medicaid payment rates, depending upon the payor mix projected for the project.

If the majority of units will be private-pay, the rates for second occupants should be determined during the rate survey of comparable facilities in the market area (see the discussion on private-pay rates on page four of this document). On the other hand, if the majority of units will be allocated to Medicaid-eligible residents, the second occupant rates should be based on the Medicaid payment structure outlined above. Typically, states will pay the full payment rate for a second occupant, although this should be verified with a Medicaid program representative.

E. Ramp-Up Period Occupancy. The most appropriate ramp-up period for the proposed project must be determined. The ramp-up period is the estimated time that will be needed to fill the building. For smaller buildings (e.g., 25 to 40 units), particularly those that will have a high percentage of Medicaid units, a 12-month ramp-up period may be appropriate. However, 18 months may be more realistic for most buildings, especially those that are of a larger size (e.g., 60 plus units). For particularly competitive markets, a 24-month ramp-up estimate is prudent.

It is not recommended to use a ramp-up period of less than 12 months, even if all units have been pre-reserved. Projecting a worst-case scenario in such a case is wise, as not all pre-leased reservations may materialize. Fill in either 12, 18 or 24 in cell **B45** for "Ramp-Up Period Occupancy" on the "Project" sheet to indicate how many months will most likely be needed for the facility reach full occupancy. The model will use this time estimate to calculate the costs associated with the facility's "start up" (e.g., higher than average vacancies, lower staffing patterns).

F. Number of Stories in Building. Enter the number of floors that are planned for the project in cell **B49** on the "Project" sheet. This cell will be used to determine if an expense should be budgeted for elevator maintenance.

G. Van to be Provided by the Facility. Enter 1 in cell **B51** on the "Project" sheet if a van will be provided by the project. Enter 0 in this cell if the facility will not have a

van. This cell will be used to allocate those expenses associated with the use of a van.

A van, while desirable for any facility, is expensive and may not be necessary for facilities projecting a high percentage of Medicaid residents if other facilities in the market area accepting Medicaid residents do not offer van transportation. Another factor that can influence the need for a van is the availability of senior transportation in the local area.

A van may be required for facilities that are located in areas where the assisted living market is quite competitive and/or that have a higher percentage of private-pay units. In these circumstances, a van may be an amenity expected by potential residents and their families.

H. **Percent Rates to Increase Each Year**. Typically revenue projections will be increased by two percent each year. However, some lenders may recommend or require a different percent. If this is the case, enter the appropriate percent in cell **B54** on the "Project Sheet".

II. REVENUE PROJECTIONS ("Revenue" Sheet)

Revenue projections are automatically calculated in the financial model, based on the information entered on the "Project" sheet. These projections are shown on the "Revenue" sheet of the model.

On the "Revenue" sheet of the model, the Ramp-Up Occupancy for the project will be automatically calculated, based on the "Total # of Units" and "Ramp-Up Period Occupancy" entered on the "Project" sheet. Also calculated on the "Revenue" sheet is the ramp-up after the appropriate vacancy rate has been factored in (based on the "Vacancy Factor" entered on the "Project" sheet of the model). The ramp-up for second occupants is also automatically calculated on this sheet.

In the section of the "Revenue" sheet titled "Census," the projected number of residents per month for each unit type will be automatically calculated. These census figures reflect an occupancy ramp-up based on the number of months entered on the "Project" sheet for "Ramp-Up Period Occupancy". The number of occupants per month increases until full occupancy is reached (100 percent less the percent allocated for a vacancy factor in cell **B15** on the "Project" sheet).

The revenue that corresponds to the census figures shown on the "Revenue" sheet will also be automatically calculated, based on the project's rate structure. The project's total revenue will then be calculated.

Revenue calculations for the project's second year of operations include a rate increase based on the percentage entered under "Percent Rates are Increased Each Year" on the "Project" sheet.

III. DEBT SERVICE ("DebtService" Sheet)

To determine if a project is financially viable, it is important to estimate the debt service payments that would be required for the project. A simplified version of this process is shown on the "DebtService" sheet of the financial model.

The number of units entered on the "Project" sheet will have been automatically transferred onto the "DebtService" sheet under the "Total Number of Units" (cell **B4**). To calculate the estimated/supportable debt service payment and any resulting gap in funding for the project:

1. Obtain several estimates of construction costs from contractors experienced with local building costs for similar projects. These estimates should include all costs related to construction, including building costs, site costs, off-site costs, and a ten percent construction contingency fee. Based on the cost estimates obtained, determine an appropriate cost per square foot for the proposed project, and enter this figure in cell **B6** for "Estimated Construction Costs Per Square Foot" on the "DebtService" sheet. An estimated number for the "Total Estimated Construction Costs" will then be calculated in cell **B9**, based on 700 square feet (gross) per unit. (Please note that 700 square feet gross per unit is a target design number for affordable projects with reasonably efficient floor plans and moderately sized units. Units should account for roughly 65% of the gross square feet, with common/services spaces utilizing the remaining 35%.)

2. Obtain an estimate for the cost of land for the proposed project, and enter this figure into cell **B12**, for "Plus Estimated Land Costs".

3. Estimates for "Soft Costs" will then be automatically calculated in cell **B14**, with 30 percent of the total development costs allocated to soft costs. This estimate allows for typical non-construction costs associated with development (e.g., governmental fees, consultant fees, financing charges, reserve funds, legal fees, insurance, etc.).

   Sometimes specific information is available that indicates the percent allocated to soft costs will need be greater than 30 percent. For example, if higher than normal non-construction costs (e.g., high operating reserves) are anticipated, it may be appropriate to allocate 35 or 40 percent of the total development costs to soft costs. If the percent budgeted for soft costs is expected to differ from 30 percent, enter the new percentage into cell **B14** for "Percent Soft Costs of Total Development Costs".

4. "Total Development Costs" will also be automatically calculated in cell **B16**.

5. Information about possible financing options for the project should be obtained. The housing finance agency (HFA) for the state in which the facility will be located may offer funding for facilities that meet affordability guidelines. To research this option and the corresponding interest rate, contact the HFA directly. Local banks may also be contacted to determine current commercial mortgage rates. It is also important to determine the amortization terms available and the percentage of the project's development costs that various lenders would finance (e.g., 95 percent loan-to-value may be typical for government-backed loans while commercial lenders may lend only 80 percent of the project's estimated value).

   Based on the information obtained from possible lending sources, enter the most likely amortization term in cell **B23**. Enter an estimated interest rate in cell **B24**, and an estimated debt service ratio for the project in cell **B25**.

6. The project's net operating revenue will be automatically calculated in cell **B27**, based on full occupancy and the first year's rates and expenses. The amount available for debt service payments will also be automatically calculated in cell **B29**, based on the estimated debt service ratio and the project's net operating revenue.

7. The maximum debt available for the project will be automatically calculated in cell **B31**, based on the project's estimated amortization term, interest rate, and amount available for debt service payments.

8. If you wish to evaluate the impact on the project's financial viability if an amount less than the maximum amount for debt service is used, enter the desired amount of debt in cell **B32** on the "DebtService" sheet. If a figure is entered in this cell, the resulting project gap or excess will be calculated from this amount. This figure would also be used to calculate the project's monthly debt payments on the "ProfitLoss" sheet of the model. The amount entered into cell **B32** should never be more than the maximum debt available for the project, as shown in cell **B31**.

9. These calculations will result in either a project gap or excess, as shown in cell **B35**. Some gaps may be addressed by varying the project's payor mix, private-pay rates, and/or expense assumptions. However, project sponsors may need to close the funding gap by obtaining grants from various funding sources (e.g., low-income housing tax credits, HOME funds, low-income loan programs, etc.). Contact your state's HFA to determine what funding sources and programs are available in your state.

IV. PERSONNEL ASSUMPTIONS ("Personnel" Sheet)

Expenses for all aspects of facility operations must be estimated to determine the financial viability of a project. Rough approximations of "typical" costs for facilities with between 25 and 100 units have been provided. However, operational expenses can vary greatly between buildings with the same number of units. For example, the size of

the community in which the building is located, the cost of living, and local job market are all factors that can affect operational expenses. A project's building design, state-specific regulatory requirements and competitive factors can also have an impact on the operational costs of a project.

Thus, it is important to use the expense estimates that have been provided only as a starting point, with the understanding that these estimates may need to be modified for specific projects. The expense ranges quoted are for typical rural areas and average cost suburban/urban areas. If your project is in a high-cost area, you will need to disregard the specified ranges and rely on the data you collect locally. Use the guidelines outlined in this section to collect data, research state-specific regulations, and estimate expenses for the proposed project.

Once expense estimates specific to your project have been obtained, enter these in the column labeled "Project Specific Cost Factor". The estimates entered in this column will override the generic estimates contained in the "Model Cost Factor per Month" column. **Any cell** that is left as a "0"in the "Project Specific Cost Factor" column will default to the "Model Cost Factor per Month" figure.

A. Personnel

It is important to estimate personnel costs as accurately as possible, as this expense comprises the largest percentage of a facility's operational budget. The model will automatically calculate the number of estimated hours for each position, based on the unit and occupant inputs. The positions and staffing ratios used in this generic model reflect best practice standards for creating affordable assisted living. However, the types of positions needed, the number of hours allocated to each position, and appropriate wages must all be carefully evaluated for specific projects. State regulations should also be reviewed for minimum staffing requirements that may exceed those entered in the model.

The model automatically calculates the personnel expenses for a proposed project based on the number of units entered onto the "Project" sheet. These projected expenses are shown on the "Personnel" sheet of the financial model. Changes may be made on this sheet to either the number of hours allocated for specific positions or the associated wages or both. Changes in wages should be made in the "Project-Specific Pay Scale" column, while the number of hours allocated for specific positions may be modified by entering the revised hours in the "Project-Specific # Hours" column. Any changes made to either a wage or allocation of hours will automatically be calculated into the project's personnel costs.

As stated above, the staffing positions and ratios reflected in the model have been found to work well in affordable assisted living projects. It should be noted that any additions to these staffing patterns may make a project more difficult to finance. That is, each staff person added to the model may decrease the ability of the project to cover the required debt payments.

To assist in determining appropriate wages for the proposed project, local wage information should be obtained for each position. One method of obtaining this information is by conducting wage surveys. Guidelines have been provided in this section as to the types of organizations that might be surveyed for the various positions. When conducting wage surveys, it is helpful to obtain information not only about wages, but also about any available benefits, such as health insurance, paid vacation and sick time, and retirement plans.

In addition to local wage surveys, information regarding wages may often be obtained from third parties. That is, industry organizations (e.g., health care and/or assisted living associations) frequently conduct wage surveys. Other organizations such as economic development agencies, chambers of commerce, and employment divisions may also be able to provide information regarding local wages. In addition, wage information for specific positions may be obtained from help-wanted ads in the local paper(s). Finally, in some states, job postings for specific positions are available on the internet (e.g., via the state's employment division web page).

When obtaining wage information, the source of the information should always be considered. For example, hospitals usually have higher wages than are paid in other types of facilities. Similarly, in some areas caregivers are paid more in nursing homes than in assisted living facilities because the acuity level is much greater.

Following is an outline of the types of positions that may be utilized within projects and a brief description of the typical responsibilities of each position. Also included is an overview of those factors that might have an impact on either the number of hours or the wage allocated for the position.

Administrator. A full-time, salaried administrator is budgeted. This individual typically oversees all of the day-to-day operations of the facility, including staffing, resident care, marketing, and business management. The salary for this position will vary greatly depending upon the location of the facility and the number of units. That is, smaller buildings and/or facilities in more rural areas may find a qualified administrator for $30,000, whereas larger buildings, those in metropolitan areas or those in areas with a high cost of living may need to pay up to $50,000 (or more) for this position. In states that have regulatory requirements for the educational background and/or related work experience of the administrator, salaries may be higher.

Estimates for an appropriate administrator's salary may best be obtained via industry association wage surveys or by networking with other assisted living providers in the local area.

Assistant Administrator. The position of assistant administrator is budgeted for facilities with 60 or more units, with 20 hours per week projected for 60 to 75-unit facilities and 40 hours per week projected for 80 plus unit facilities. The

responsibilities of this position will typically vary depending upon the primary skill areas of the administrator. Some of the duties that would be performed by the administrator in smaller buildings are delegated to the assistant administrator (e.g., marketing, business functions, staff scheduling).

An appropriate wage for this position may best be estimated via those avenues outlined for the administrator position. Wages for an assistant administrator may range from $10.00 to $16.00 per hour, depending on the location and size of the building.

Receptionist. A receptionist/administrative assistant is typically not needed for buildings with less than 40 units. For buildings ranging from 40 to 55 units, a part-time receptionist might be utilized (e.g., 20 to 35 hours per week). Buildings with 60 or more units will typically require a full-time receptionist. In the model, the number of hours per week allocated for this position increases incrementally with the number of units, with ten hours per day budgeted for buildings with 90 or more units. The receptionist position is usually responsible for answering the phone, greeting visitors, and performing clerical duties.

To estimate the hourly wage for this position, comparable wages for receptionist/clerical positions in several different industries should be obtained. Often this can be accomplished by looking at local help-wanted ads and/or job posting sites on the internet. Wages for this position will typically range from $7.50 to $9.00 per hour, depending on the location of the facility.

Activity Director. The activity director is responsible for planning and implementing social and recreational activities for residents. Smaller buildings (e.g., those with under 40 units) will typically employ a part-time activity director for 20 or 30 hours a week. Buildings with between 40 and 50 residents typically require 30 to 35 hours for this position, while buildings with more than 50 residents should generally budget 40 hours for this position. If funds are available, it may be desirable to increase the number of hours allocated to this position, particularly in larger buildings. That is, it is desirable to offer activities throughout each day, seven days a week. This may be accomplished with the hours budgeted, but would most likely require the use of volunteers to conduct some of the activities.

Appropriate wages for activity directors typically range from $9.00 to $12.00 per hour depending on the location of the facility and the number of units. Comparable wages may generally be obtained from wage surveys of currently operating assisted living facilities or nursing homes and from help-wanted ads or job postings.

It should be noted that in some states the number of hours per week an activity director must be available is mandated by regulation.

Van Driver. If a van will be utilized by a facility for transporting residents to doctor appointments, shopping and on outings, the cost to employ a driver should be

budgeted. Buildings with less than 40 units may need to budget as few as 10 hours per week for this position. Buildings with between 40 and 65 units might budget between 14 and 18 hours per week, while those with more than 70 units should allocate approximately 20 hours per week.

Some buildings may choose to utilize the activity director for this position by increasing the number of hours worked by this individual. Otherwise, the position may typically be budgeted at the wage determined for the resident assistants (e.g. an estimated $6.50 to $8.50 per hour depending on the location of the facility).

Registered Nurse or LVN/LPN. The role of a nurse in assisted living facilities is typically to oversee resident care, train and supervise resident assistants, and interface with other health-care providers (e.g., resident physicians, home health agencies, etc.). In some states a RN must be utilized for this position, either as a requirement of state regulations or because of industry standards in the area. A number of states have nurse delegation acts that allow only RNs to delegate nursing tasks to unlicensed staff in assisted living facilities

The number of nursing hours needed depends on the size of the facility, regulatory requirements, and the level of acuity in the building. The financial model utilizes a factor of .75 hours of nursing time per resident per week, and assumes that the average acuity level in the project will be high – the level typical for a nursing home alternative model. A nursing home alternative model is used because this is the model that is required by most state Medicaid waiver programs. If you expect to use a different source of service reimbursement with lower acuity thresholds, the estimated hours of nursing time built into the model can be modified to reflect a lower level of anticipated care needs.

Comparable wages for the nurse position may be found by surveying other assisted living facilities, nursing homes, hospitals, and home health agencies. Other sources of wage information may be industry surveys, help-wanted ads and web-based job postings.

Nurse On-Call. Nurses in assisted living facilities are typically expected to be available on an on-call basis for questions by staff regarding resident care. An additional fee may be paid to the nurse as compensation for on-call time. This fee may range from $150 to $250 per month, depending on the size of the facility.

Resident Assistants. Resident assistants are responsible for assisting residents with needed services, including personal care, medication assistance, re-direction and orientation, and meal service. They also are responsible for maintaining appropriate documentation in resident records and may perform housekeeping functions in the common areas of the building. Some states may specify the number of resident assistants that must be on duty at various times, whereas other states simply require that sufficient staff be available to meet the needs of the residents.

States may also have requirements for the qualifications of resident assistants. That is, some states may require resident assistants to take a specified training course, to maintain a required certification, and/or to have a certain type of experience or skills. Depending on the state and/or company by whom the resident assistant is employed, various titles for this position may be used (e.g., resident assistant, nursing assistant, certified nursing assistant, personal service assistant, personal care assistant, etc.).

The appropriate number of resident assistants will depend on the acuity of resident needs. That is, facilities with a higher level of care should have a higher staffing ratio than facilities with a lower level of care. The financial model assumes a high average level of care, typical of a nursing home alternative model of assisted living.

Typically a building will have more staff on the day and evening shifts than on the night shift, as resident care needs are usually not as great at night. Shifts for resident assistants typically range from approximately 7:00 a.m. to 3:30 p.m. for the day shift, from 3:00 p.m. to 11:30 p.m. for the evening shift, and from 11:00 p.m. to 7:30 a.m. for the night shift. However, there are many variations in staffing patterns and shifts, all of which can work equally well depending on the needs of a particular facility. Regardless of the specific shifts allocated, the hours budgeted and the resulting staffing expense will be the same.

It should be noted that staffing needs may vary for buildings with the same number of units, depending on the design of the building. That is, a multi-story building should have at least one resident assistant available per floor per shift, even if this would result in more staff than would otherwise be budgeted. The same would be true if a building has distinct wings or sections. The model assumes a one-story building without distinct wings or sections. If a building will have multiple floors and/or distinct sections, it would be advisable to work closely with an operations consultant during the design phase of the project to minimize any impact the design could have on staffing levels.

The ramp-up minimum for this position is based on projections of one resident assistant for each shift, seven days a week, at the wage entered under “Pay Scale” on the “Personnel” sheet.

The wages for resident assistants can vary significantly between geographic areas, depending upon the local cost of living, job market, and any state-specific minimum wage requirement. Wage surveys for this position should typically include other assisted living facilities, nursing homes, hospitals and home health agencies. Help-wanted ads and web-based job postings may provide additional information. When conducting wage surveys for this position, it is helpful to determine if any differential is paid for certified aides versus those who are not certified and/or for aides who work the swing or night shifts.

As noted above, hospitals typically have higher wage structures than do other types of facilities. In addition, home health aides are often paid more than resident assistants

in assisted living facilities, as these aides usually are not guaranteed regular hours and have to provide their own transportation between clients.

Wages for resident assistants may range from $6.50 to $8.50 per hour, depending on the location of the facility.

Lead Cook/Food Services Director. This position typically oversees the day-to-day operations of the kitchen, including ordering food, ensuring the cleanliness of the kitchen, and maintaining food costs within budgetary guidelines. Depending on the size of the building, this individual may also be responsible for overseeing all kitchen personnel (e.g., hiring, scheduling, supervising, etc.). The person in the lead cook/food service director position typically also performs cooking duties and is usually budgeted at 40 hours per week.

The wage for the lead cook/food service director will vary depending upon the size of the building and the location of the facility, with a typical range between $9.00 and $13.00 per hour. Wage surveys may include other assisted living facilities, nursing homes, hospitals, schools and/or restaurants. Help-wanted ads and job postings may also provide useful information.

Cooks. Depending on the size of the facility, one or more cooks will be required in addition to the lead cook/food service director. Buildings with less than 50 residents can typically be staffed with 10 cook hours per day, supplemented as appropriate with assistance from a dietary aide. Larger buildings will require additional cook hours (e.g., 16 hours per day).

The lead cook/food service director typically performs cooking tasks in addition to the administrative duties within the 40 hours a week budgeted for this position. In larger buildings, the food service director may need more hours for administrative duties, and thus may not be able to allocate the full 40 hours to cooking-related tasks. This has been factored into the cooking hours budgeted for the model.

Wages for cooks may range from $8.00 to $9.00 per hour, depending on the location of the facility. As with the lead cook/food service director, wage surveys should include other assisted living facilities, nursing homes and hospitals, utilizing schools and restaurants if appropriate. Help-wanted ads and job postings may also provide useful information.

Dietary Aide/Kitchen Assistant. A dietary aide/kitchen assistant may be utilized to provide assistance to the cooks. Duties may include food prep tasks, dish washing, cleaning of food preparation areas, and dining room set-up/clean-up. The hours needed for this position will vary depending on the size of the building and the number of cook hours budgeted.

An appropriate wage for this position may be obtained by surveying nursing homes, hospitals and restaurants.

Server. Most assisted living facilities designed to provide affordable assisted living will utilize resident assistants to serve meals to residents. However, dedicated servers may be required by state regulation and/or may be desirable in facilities with a larger number of private-pay units, especially those with a higher rate structure. In some markets, the use of dedicated servers has become a standard and is used to enhance the dining experience for residents. In such a case, it may be helpful to utilize dedicated servers to compete effectively in the marketplace. No hours for a server position have been allocated in the financial model, although this position may be added as deemed appropriate.

Housekeeper. Housekeepers in assisted living facilities are typically responsible for cleaning resident apartments on a weekly basis. Resident assistants typically clean the common areas during the night shift. The number of hours required for the housekeeper position will vary with the number of units. In the financial model, 0.8 hours per week for each unit has been allocated to this position. The ramp-up minimum for this position is based on 20 hours per week at the wage entered on the "Personnel" sheet under "Pay Scale".

The wage for a housekeeper is typically similar to that paid to resident assistants. Wage surveys for this position may include competing assisted living facilities, nursing homes, and motels.

Maintenance Person. Maintenance personnel are needed to keep the building in good condition and perform preventative maintenance tasks as appropriate. This is the case even for new buildings. The estimates provided in the financial model for this position are based on a factor of 0.5 hours per week per unit, with a minimum of 20 hours per week allocated. Older buildings and/or buildings that have not been well maintained may require additional maintenance time. The wage for a maintenance person will vary depending upon the location and size of the facility, and may range from $8.50 to $12.00 per hour. Wage surveys for this position can be conducted with other assisted living facilities, nursing homes, and hospitals. Help-wanted ads and job postings may also provide helpful information.

Other Project-Specific Personnel. Some facilities have special needs that require additional staffing not included in this model. For example, a project located in a high-crime or urban setting may need to employ security personnel, while a special-needs project that serves only hearing-impaired individuals might require the services of a translator to facilitate communication with residents.

If it appears that a project will require such project-specific personnel, the estimated wage and number of hours per week should be entered in cells **C27** and **F27** on the "Personnel" sheet. The associated expense will then be automatically calculated in cell **H27** and added to the total personnel costs for the project.

B. Additional Personnel Costs

A factor must be budgeted to cover additional personnel costs and benefits such as payroll taxes, workers compensation insurance, health insurance, paid vacations and/or sick time, and overtime/holiday pay. In the financial model, these items have been budgeted at a typical 35 percent of the total staffing costs. This figure may be modified as appropriate, depending on factors such as worker's compensation rates, the benefit package offered to employees, or required state payroll taxes.

V. EXPENSE ASSUMPTIONS ("Expenses" Sheet)

Most operational expenses other than direct labor costs may be estimated based on a per unit or occupant, per month factor. When such a factor is used, the monthly cost for an expense will vary based on the number of units projected. The cost factors used in this financial model are shown on the "Expenses" sheet in the "Model Cost Factor Per Month" column for each expense category. The "Cost Factor" column shows whether the factor is based on the number of units, occupants, or some other factor.

The cost for some expense items (e.g., audit expense) may not be directly correlated with the size of the building. In such a case, 1) a fixed amount may be used to estimate the monthly cost, regardless of the projected number of units, 2) "n/a" will be shown in the "Cost Factor" column on the "Expenses" sheet, and 3) an estimated monthly expense for the line item will be shown in the "Model Cost Factor Per Month" column.

A total cost per month will be automatically calculated based on the facility's number of units and the "Model Cost Factors" shown for each line item. It is important to remember that these cost estimates are gross assumptions. Review the "Model Cost Factors" that have been calculated to determine whether they seem appropriate for your specific project. In the following section, a brief explanation of each line item will be provided, as well as the primary factors that may have an impact on the project-specific cost of an expense category. When it is appropriate to change an estimated cost, a modified cost factor should be entered into the "Expenses" sheet in the "Project-Specific Cost Factor" column. The "Total Cost Per Month" will then be recalculated based on this information. If unsure whether a specific line item should be increased, remember that this model was designed to be a preliminary decision-making tool. All cost estimates will be reviewed and refined as necessary when a full operational proforma is generated.

While most expense estimates are based on the number of units in a building, some expenses will vary monthly depending on the occupancy of the building. Other unit-based costs are fixed because they do not typically vary with occupancy levels, but are constant costs that are tied to the size of the building. A ramp-up minimum is provided for each "variable" cost (costs that vary with occupancy) to ensure that the monthly cost estimate does not fall below a practical minimum during the first months of a facility's rent-up period.

A. Administrative Expenses

Office Supplies. This line item represents all office supplies needed to operate a facility. A per unit/per month factor may be used in calculating this figure.

Postage. This category includes postage and any overnight mail charges. A per unit/per month factor may also be utilized to estimate this amount.

Telephone. A per unit factor has been provided for this category. However, telephone costs can vary greatly depending upon the local phone company's billing policies, the number of phone lines in the building, and whether any long-distance calls are required on an ongoing basis (e.g., the management company for the building is located out of the area). Thus, this estimate should be modified as appropriate.

Pagers/Cellular Telephones. The administrator and nurse typically are required to be available on an on-call basis via the use of pagers or cell phones. Pagers are less expensive to use but typically are more cumbersome than cell phones. A fixed cost of $60 per month has been allocated for this line item, to allow for two cell phones with calling plans at $29.95 per month. This amount may need to be modified depending on whether pagers are used instead of cell phones and/or if more costly calling plans are utilized.

Automobile (Milage). Costs in this category would be attributed to mileage incurred by building personnel in conducting facility business. Again, a per unit/per month factor may be utilized.

Administrative Advertising. This line item includes those costs associated with personnel recruitment, and can vary greatly depending on the location of the building and the stability of staff. Thus, this number should be modified if the building is located in a metropolitan area with higher advertising costs and/or has a high turnover of staff necessitating ongoing recruitment efforts.

Dues/Memberships. This category accounts for the costs incurred by membership in industry associations, chambers of commerce, and/or subscriptions to industry publications. This number may need to be increased if the building belongs to more than one industry association.

Education/Training. The costs associated with the training of staff (e.g. first aid, CPR) or conferences and seminars are included in this category. The per unit figure provided may need to be modified depending on the number and type of conferences/seminars attended and state requirements for staff training.

Audit Expense. Some building lenders require that audits be performed on a yearly basis. Hence, an estimated cost per month is provided to cover this cost. This amount would not be needed if an audit is not required. If an audit is required and the

estimated cost for this service is greater than the $500 per month figure allocated, this figure should be adjusted accordingly.

Accounting Expense. The cost of performing accounting-related tasks is included in this category (e.g., payroll processing, billing, etc.). A per unit cost is provided.

Licensing Fees. An estimated cost to cover licensing fees is provided based on the number of units. However, this cost varies from state to state. The actual amount should be obtained from the state's licensing department.

Pre-Employment Screening. This category includes those costs associated with any pre-employment screening conducted, such as criminal record clearances, Hepatitis B vaccinations, and state-required health examinations. These costs will vary by state, depending on regulatory requirements and the costs associated with these requirements.

Miscellaneous Expense. The miscellaneous expense category includes administrative-related costs not included in any of the line items outlined above.

B. Dietary/Kitchen Expenses

Raw Food. The cost of raw food is typically budgeted on a per resident (per meal or per day) basis. The cost factor provided in the financial model is $4.05 per resident/per day. This factor assumes that one main entrée is served for each meal with alternatives provided as desired by residents. An assumption is also made that a group purchasing program is utilized to minimize the costs of raw food and kitchen supplies. If a "select" menu is used, which provides more than one entrée for all meals, or if a purchasing program is not utilized, it may be appropriate to increase the cost factor for this line item by 15 to 20 percent.

Kitchen Supplies. This category includes supplies used in the kitchen for food preparation or service (e.g., foil wrap, paper cups, place mats, etc.). A per resident/per month amount is provided for this expense. Again, this factor may need to be increased if a purchasing program is not utilized.

Smallwares and Minor Equipment. Included in this line item is the cost to purchase or replace smallwares (e.g., silverware, dishes, etc.) or small equipment items. A per resident figure is provided.

Dietary Consultant. A monthly fee is usually paid to a dietary consultant for the preparation of menus and recipes. Consultants may also perform kitchen inspections if mandated by state regulatory requirements.

C. Resident Care

Care Supplies. This category includes those items utilized in the provision of personal care and medication assistance for residents. An estimated per resident figure is provided.

Pharmacy. This per resident charge typically covers the cost for a pharmacy to generate medication records on a monthly basis for residents. An additional fee may also be charged if consulting services are provided. Some states mandate those services that must be provided by a pharmacy.

Activity Supplies and Entertainment. This line item includes all costs associated with a facility's activity program. A per resident factor is provided.

Housekeeping Supplies. This category is a per unit cost associated with the expense of providing housekeeping and laundry services. The figure provided assumes that residents provide their own linens, towels, and toilet paper. Some state regulations require facilities to provide these items for residents; in such a case, this line item would need to be increased.

D. Maintenance

Repair Expense. This line item is comprised of those costs related to providing repairs to the building and/or equipment. A per unit figure is provided.

Elevator Expense. This category would be utilized for multi-story buildings, and will be automatically calculated if a number greater than one is entered in cell **B49** for "# Stories in Building" on the "Project" sheet. This cost covers the monthly fee for a maintenance contract for the elevator(s) and may vary depending on the building's location and number of elevators.

HVAC Expense. This line item applies to maintenance provided to a building's heating, ventilating and air-conditioning (HVAC) system, and is based on the project's number of units. This line item would not apply if a building does not have air conditioning, and may be less than the amount provided if only the building's common areas are air-conditioned.

Grounds Contract. This per unit figure covers the cost to have the grounds of the facility maintained on a regular basis. The actual amount charged may differ from the estimate provided, depending on the amount and complexity of any landscaping on the grounds and on the size of the property. It should be noted that for large properties, only a portion of the grounds may need to be maintained. The remainder of the site can often be left in its natural state.

Pest Control. This category includes the cost for regular pest control services to be provided. This cost is automatically calculated in the model based on the size of the building. The cost for this service typically increases slightly with larger buildings.

Alarm Monitoring. This line item covers the cost associated with monitoring of the facility's fire alarm system.

Miscellaneous Maintenance. This category is available for those maintenance-related charges not associated with any of the above categories.

E. Van Expenses

If a "1" was entered into cell **B51** on the "Project" sheet for "Van to be Provided by the Facility," expenses related to the use of a van will be automatically calculated on the "Expenses" sheet. If a "0" was entered in this cell to indicate that a van would not be utilized, no related expenses will be shown.

The specific line items included under Van Expenses are Gas/Oil, Vehicle Lease/ Purchase Payment, and Vehicle Maintenance. The cost of insurance for the van is included in the expense category for Property and Liability Insurance. (See the section in this document on pages 10 and 11 on "Van to be Provided by the Facility" for a discussion of those factors that can affect a project's need for a van.)

F. Marketing

Advertising. The amount of money spent on advertising will vary depending upon the competitiveness of the marketplace, the advertising options available in the market area, and the effectiveness of other marketing strategies employed. Another major factor affecting this line item is the location of the facility. That is, advertising costs in small, rural communities are typically minimal, whereas these costs in metropolitan areas can be significant and often are cost-prohibitive. In metropolitan areas it may be necessary to rely more heavily on alternative strategies such as network marketing. (Please note: Network marketing will decrease potential advertising costs. However, it may increase the amount of time allocated to marketing efforts.)

Referral Agency Fees. In some communities, referral agencies play a significant role in the community's local referral network. In such a case, an amount should be budgeted for referral agency fees. If a building is located in an area that does not utilize such agencies or if the building does not require the use of agencies to maintain occupancy, funds would not need to be allocated for these fees. No funds have been allocated for this line item in the financial model, as the model assumes a high percentage of Medicaid residents, and referral agencies are usually not needed to attract Medicaid-eligible residents.

Printing. An amount should be budgeted for the costs associated with printing marketing materials such as brochures, business cards and stationary. The cost estimate provided in the model may be low if more elaborate materials are envisioned (e.g., four-color printing, etc.).

Miscellaneous Marketing Expense. This line item covers any marketing expenses not associated with those categories outlined above.

G. Utilities

The costs for utilities (i.e., electricity, gas, water, cable TV, sewer, and trash removal) may vary significantly depending on the location of the facility. An average monthly per unit cost has been provided. However, these costs should be researched on a facility-specific basis. Suggestions are provided below on how to obtain estimates for these costs.

Electricity and Gas. The utility companies providing electricity and gas to the building will typically provide estimates of cost based on the number of units in the building and comparable facilities in the area.

Water and Sewer. The monthly expense for water and sewer is typically based on the number of units in the building. The companies providing these services will usually provide an estimated monthly cost for a proposed project.

Cable TV. The cable TV vendor servicing the area in which the building is located should be able to provide estimates of cost based on the number of units in the building. Typically, the facility will include the cost of basic cable in residents' monthly fees, with extended cable paid for by each resident directly if it is preferred. Some facilities will bill residents for the basic cable charge, but this may not be allowed under some states' Medicaid programs.

Trash Removal. The cost for trash removal will vary depending upon the location of the facility and the number of residents. Estimated costs for this expense may typically be obtained from the service provider if information is provided regarding the number of units planned for the project.

H. Property Costs

Property and Liability Insurance. Estimates of insurance coverage can vary significantly based on the location of the facility. In some states, it has become difficult to even obtain insurance for assisted living facilities; in other states, the cost of this item has risen significantly over the past several years. An "average" per unit estimate for insurance has been provided. However, actual estimates should be obtained from local insurance brokers providing this type of insurance.

Property Taxes. The property tax treatment and costs for your project (for-profit or non-profit) need to be researched carefully since property taxes can be a major expense. Not-for-profit facilities typically are not required to pay property taxes, although in certain cases property taxes may be required. A determination as to whether a non-profit organization should budget for property taxes may best be made by a tax attorney or other professional with specific expertise in this area.

When applicable, property taxes should be estimated. The appropriate factor to apply to the building's value may be obtained from the county assessor's office. The property tax calculation in the model is based on the amount of the project's total development cost.

Repair and Replacement Reserve. Funds should typically be placed in a repair and replacement reserve on a monthly basis. An amount of $35.00 per month per unit is provided (this is the amount used by some lenders), although some lenders may prefer that another factor be used to calculate this reserve amount.

Management Fee. A management fee is typically paid to a management company to oversee the ongoing operations of a facility. This fee is usually based on five percent of the facility's gross revenue, although in some cases a higher percentage may be used. A five percent fee is provided in the expense assumptions in the financial model.

A minimum monthly fee is usually included in a management contract to provide sufficient compensation to the management agent during the facility's lease-up period. The amount of this fee will usually vary depending on the size of the building. Minimum fees may range from $2,500 for a 30-unit building to $5,000 (or more) for larger buildings. The minimum fee used in the financial model varies with the number of units projected.

Inflation Factor for Expenses. Typically expense projections are increased by three percent each year. However, in some cases it may be appropriate to increase expenses by a different factor (e.g., if recommended or required by a lender). If an inflation factor other than three percent will be used, enter this amount in cell **D72** on the Expenses sheet of the model.

VI. PROFIT & LOSS PROJECTIONS ("ProfitLoss" Sheet)

The financial model will automatically calculate profit and loss projections, based on the information entered into all of the various sheets of the model. These projections are shown on the "ProfitLoss" sheet.

The figures "Total # of Occupants," "Percent Occupancy" and "Total Revenue" are automatically transferred to this sheet from the "Revenue" sheet. The expense projections are calculated from the information on the "Personnel" and "Expenses"

sheets. The projected debt service shown is based on the "Amount Available for Debt Service Payments" calculated on the "DebtService" sheet or the debt service amount you manually entered into the sheet.

Revenue is increased on an annual basis by the percent entered on the "Project" sheet in the "Percent Rates to Increase Per Year" cell. Expenses are increased each year by the amount entered under "Inflation Factor" on the "Expenses" sheet.

A review of the "ProfitLoss" sheet will indicate the preliminary viability of a project under the assumptions you have entered. Remember that you may vary your assumptions (number of units, private pay mix, staffing, etc.) within reason to see if there is a project scenario that provides a viable project.

Good luck with your project – we hope this model proves useful to your preliminary analysis.